

Statement by Dr Duncan Wood

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Hearing Before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs,
House of Representatives

March 14 2013

Thank you, Mr. Chairman. Chairman Salmon, Ranking Member Sires, members of the committee, it is a privilege to join you today. I appreciate the invitation.

I have been asked to talk to you all today about the opportunities for energy cooperation between Mexico and the United States. For the past 17 years I lived and worked in Mexico as a university professor and for the past 6 years I have worked intensively on policy research relating to Mexico's energy sector. I have worked closely with the government, with Pemex and with the private sector on multiple issues relating to the Mexican energy industry, and between 2007-2009 I ran the Red Mexicana de Energia, a group of leading Mexican energy experts who advocated for a more open and inclusive discussion of energy reform in the country. Last year I was fortunate enough to lead a group of experts which produced an influential report that lay out the guiding principles for the oil industry reform that is expected later this year under the Enrique Pena Nieto government.

Looking ahead to the next four years of interaction between governments of Mexico and the United States, there is the potential for an enormously fruitful relationship in energy affairs. Much of this depends on two key factors, political will and the internal changes that are underway in Mexico's energy sector. In the past, political sensitivities concerning U.S. involvement in the Mexican hydrocarbons industry have limited the extent of collaboration in the oil and gas sectors. This continues to be a cause for concern in any U.S.-based discussion (from either the public or private sectors) of Mexican energy policy and the potential for collaboration, but in recent years there has been a relaxation of sensitivity in this area. Partly in response to the perceived need for international assistance in resolving Mexico's multiple energy challenges, and partly as a result of a productive bilateral institutional relationship between federal energy agencies, there is now a greater potential for engagement than at any time in recent memory.

I have identified three main areas in which bilateral energy cooperation holds great promise in the short to medium-term. First, given the importance of the theme for both countries, there is great potential in the developing collaboration through the Transboundary Hydrocarbons Agreement, signed in early 2012. Second, the two countries should work towards the creation of a truly integrated market for electric power at the regional level should be priorities for the two countries, with a special emphasis on the question of a more complete cross-border transmission network. Third, in the area natural gas, where Mexico's impressive potential for shale gas can only be realized after a significant reform of the sector to allow for greater private participation, U.S. firms have the opportunity to be leaders in the development of the resource, building on their experience in the Eagle Ford formation. In the meantime, major investments are needed in pipeline infrastructure, both to bring gas across the border from the

United States into Mexico, and within Mexico to bring the gas to the millions of potential consumers who are currently without access to natural gas.

Underlying all three of these areas are broader concerns about regional economic competitiveness and the consolidation of economic development in Mexico. The first of these concerns derives from the hugely important comparative advantage that the North American economic region has derived in recent years from low-cost energy, driven by the shale revolution. In order to maintain this comparative advantage, and to ensure that the integrated manufacturing production platform in all three countries benefits from the low-cost energy, the gains of recent years must be consolidated by fully developing Mexico's energy resources. With regards to the second concern, economic development, a number of commentators, analysts and political figures in Mexico have identified energy reform as a potential source for driving long-term economic growth and job creation, and the potential opportunities for foreign firms are considerable. While the United States cannot play an active role in driving the reform process, the implementation of any future reform will benefit from technical cooperation with the U.S. in areas such as pricing, regulation and industry best practices.

In the time that remains I would like to focus my attention on the Transboundary Hydrocarbons Agreement. While I understand that there have been delays in presenting the treaty for ratification, and that last year's electoral cycle was partly responsible for this, it is now important to focus on the implications and optimal timing of the ratification process. In terms of the implications, we should consider two points: first that approving the treaty will create new levels of legal certainty for U.S. and Mexican firms operating in the Gulf border regions, encouraging them to engage in the risk-taking required to produce oil from deep waters; second, the agreement has far-reaching implications in terms of regulatory cooperation between the two countries that is fundamentally necessary in the aftermath of the Macondo disaster and crucial for boosting Mexican standards. In terms of timing, I would argue that ratifying the agreement before the Mexican energy reform debate begins in earnest will encourage the process forward; however, a ratification that occurs during the reform process may be viewed in such a way in Mexico that it complicates the debate.

I would be happy to elaborate on any of these, or other points of interest in the bilateral energy relationship in the Q&A that follows and, once again, I would like to thank you for the opportunity to be here today: I consider it a singular honor.